



SPECIAL COUNCIL MEETING

ANNEXURE A 3

**2019/20 FINANCIAL YEAR
BUDGET RELATED POLICIES**

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2	DRAFT FUNDING AND RESERVES POLICY



POLOKWANE

MUNICIPALITY

DRAFT LOSS AND CLAIMS POLICY

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POLOKWANE LOCAL MUNICIPALITY**CLAIMS & LOSS CONTROL COMMITTEE POLICY**

To provide for a written description of the Claims & Loss Control Committee (the “Committee”) procedures established for Polokwane Local Municipality. This document is an overview of the individual procedures which support the Claims & Loss Control Committee and contains guidelines for Good Practice for claims and loss management within Polokwane Municipality.

WHEREAS the municipality does from time to time receive claims from the public relating to possible damages caused in incidents occurring in the service delivery activities of the municipality;

AND WHEREAS from time to time the municipality has to deal with losses occurring within the organisation pertaining to its employees, official equipment, vehicles and municipal property as a whole as well as private property of employees;

AND WHEREAS it is the purpose of the Claims & Loss Control Committee to evaluate and settle property loss/damage and/or liability claims in amounts less than the excess amount for which the Municipality is liable in terms of its insurance policy;

NOW BE IT ENACTED by the Council of the Polokwane Local Municipality, as follows:-

CHAPTER 1

COMMITTEE COMPOSITION

1.1 CUSTODIAN OF THE COMMITTEE

- (a) The Committee shall fall under the custodianship of the Chief Financial Officer of the Municipality.
- (b) Members of the Committee shall be appointed, in writing, by the Municipal Manager or his/her authorised representative.
- (c) The office of the CFO shall appoint a secretary for the Committee, the duty of whom it shall be to distribute Agendas for meetings of the Committee as well as record and minute meetings of the Committee.
- (d) This Policy as well as the appointment of members of the Committee shall be reviewed annually by the Municipal Manager or his/her authorised representative.
- (e) The CFO may delegate any of his/her duties under this policy to a senior official within the Financial Services SBU.

1.2 MEMBERS AND REPRESENTATION

- (a) The Committee membership shall comprise of the following standard members:-

Chairperson	Deputy CFO
Finance Officials	Asst. Manager Expenditure Accountant Insurance & Investments
Legal Services	Asst. Manager Legislation & Law Enforcement
OHS	Asst. OHS Officer
Environment	Asst. Manager/Snr. Supervisor
Traffic	Asst. Manager/Snr. Superintendent

- (b) Service Business Units shall be represented by the relevant Manager of that SBU in meetings of the Committee whenever a claim or loss arising from the activities of such a SBU is tabled before the Committee.
- (c) SBU Managers may delegate a representative to attend meetings of the Committee on his/her behalf but only with the consent of the Chairperson of the Committee and further provided that such a representative shall be fully conversed and familiar with all relevant facts pertaining to the claim or loss he/she shall be presenting before the Committee on behalf of the SBU.

1.3 ROLES AND RESPONSIBILITIES

- (a) Chairperson: A representative from the Office of the Chief Financial Officer (generally the Deputy CFO) will chair the Claims & Loss Control Committee.
- (b) The Chairperson shall ensure the meeting agenda is completed and that assignments and commitments have been achieved and further that all records are sent to the Records Section for safekeeping.
- (c) All records required and generated by the procedures and working of the Committee shall be maintained and located in the Records Section of the Municipality.
- (d) The Chairperson shall also be the technical mentor and coach of the Committee by providing guidance in terms of regulatory requirements, technical resources and references etc.
- (e) Members: Complete the functions and tasks necessary to fulfil the goals and objectives of the Committee.

1.4 QUORUM RULES

- (a) A minimum 75% (4) of the membership is required to be present in order to hold a meeting and take a vote.
- (b) Resolutions and process directions are passed by a majority vote.

1.5 MEETING SCHEDULES

The Committee will meet as claims arise but at least quarterly.

1.6 AGENDAS MINUTES AND RECORDING OF MEETINGS

- (a) The secretary of the Committee shall be responsible for compilation and distribution of Agendas for Committee meetings at least 3 days prior to a meeting.
- (b) Agendas shall contain all relevant information as stipulated in this policy regarding a specific claim and/or loss including a written report from the relevant SBU Manager to whose SBU the claim or loss relates.
- (c) The secretary shall capture all resolutions of the meeting during the meeting and then record same in written Minutes of the meeting to be distributed to all attendees of a specific Committee Meeting.
- (d) The secretary shall ensure that an attendance register is signed at all meetings of the Committee and also record any apologies accordingly.

CHAPTER 2

PROCEDURE

2.1 PURPOSE OF THE COMMITTEE

- (a) The purpose of the Committee is to consider and settle or repudiate claims for damages caused to the property of members of public arising against the Municipality from time to time as well as consider and settle internal loss control issues as they arise.
- (b) The Committee shall have the authority to deal with claims as described in sub-clause 2.1(a) on the merit of each individual claim, for claims which falls within the excess amount of the Municipality's liability under its public liability insurance policy.
- (c) The Committee shall focus on the following goals and functions in order to meet the purpose identified:
 - (i) Review, consider and discuss all claims and losses received;
 - (ii) Settle, repudiate or refer back for further information all claims tabled before the Committee which falls within its mandate;
 - (iii) Attend meetings arranged for purposes of discussion and finalisation
 - (iv) Seek advice from any Third Party in considering and finalising claims before the Committee as the Committee may deem necessary.

CHAPTER 3

RECEIPT OF CLAIMS TO SERVE BEFORE THE COMMITTEE

3.1 SUBMISSION OF CLAIMS

- (a) Claims against the Municipality have to be submitted at the office of the Manager of the SBU allegedly responsible for the damage which gave rise to the claim.
- (b) Potential claimants have to contact the office of the relevant SBU Manager where the necessary claim form can be obtained and again submitted with the required information and documentation required as indicated on the form.
- (c) Claimants shall claim from their own insurance companies first before recourse is sought against the Municipality. No claimant shall refuse to claim for damages against their own insurance company. In all instances the claimant shall disclose the name and telephone number of their insurance company.
- (d) Claims for consideration by the Committee have to be lodged with the Municipality within 3 months of the date of the incident causing the alleged damage. Claims lodged outside the cut-off period of 3 months shall not be considered by the Municipality.
- (e) All claims lodged with the municipality shall contain the following information and be accompanied by the following relevant documentation:-
 - (i) Completed claim form;
 - (ii) Sworn affidavit by the claimant on the circumstances how, date, time and place where the incident allegedly causing the damage occurred;
 - (iii) SAPS MR Number showing the incident has been reported with SAPS;
 - (iv) 3x quotations for repairing of the damage allegedly caused;
 - (v) Colour photographs of the scene of the incident as well as the damaged property (where damage is caused to mag-wheels and tyres the municipality reserves the right to inspect such mag-wheels and tyres);
 - (vi) A certified copy of the claimants ID;
 - (vii) A certified copy of the damaged motor vehicle's registration/licensing documents (where applicable);
 - (viii) A copy of the claimants municipal services account for the month directly preceding the incident;
 - (ix) A letter from the claimants insurance company indicating that a claim has been lodged with the insurer for the damage to the claimants property, further indicating what the excess amount payable on the claim is.

3.2 CLAIMS ASSESSMENT

- (a) Although all claims received shall be reviewed by the Committee, the Municipality is not obliged to honour any claim.
- (b) Claims received shall be considered on merit of each individual claim. Negligence on the part of the claimant shall result in discounting of the claim in the discretion of the committee.
- (c) In all instances where alleged damage is caused to a claimant's property, the Municipality shall only consider payment of the claimants excess payable under his/her own insurance policy where the Committee is of the opinion that the claim has merit and warrants remuneration.
- (d) Claims received shall within a period of 5 working days from date of receipt of such a claim, be submitted to the office of the Accountant Insurance and Investments by the relevant SBU Manager receiving the claim. Claims thus submitted shall contain all relevant information requested on the claim form and shall be accompanied by a written report of the relevant SBU Manager regarding the merit of the claim from the SBU's perspective.
- (e) On receipt of a claim from the SBU Manager, the Accountant Insurance and Investments shall acknowledge receipt of the claim and arrange for the claim to be lodged with the Records Section so that a file number can be allocated to the claim.
- (f) Complete claims shall be forwarded to the Secretary of the Claims and Loss Control Committee who in turns shall compile an Agenda for the Committee and secure a date for the next meeting to consider claims.
- (g) Claims have to be finalised within 30 working days following the date of receipt of a complete claim.

3.3 PAYMENT OF CLAIMS

- (a) Claims deserving of payment in accordance with the Committee's resolution shall be limited to payment of the lowest quotation amount or the claimant's excess payment under his/her policy, whichever is the lesser amount.
- (b) Where the Committee resolves to honour a claim against the Municipality, the payment shall be made ex gratia and in full and final settlement of the claimants claim.

3.4 NO OR PARTIAL PAYMENT OF CLAIMS

- (a) If the claim is denied, the Committee states and minutes explicitly to the claimant the reasons on which denial of the claim is based.
- (b) If the amount offered is different from the amount claimed, the Committee explains the reason for this to the claimant.

- (c) When the municipality is not responsible (by virtue of common law or delict principles) for meeting all or any part of the claim, the Committee notifies the claimant of this fact and explains why.

CHAPTER 4

LOSS CONTROL

4.1 RECEIPT OF LOSS CONTROL MATTERS FOR CONSIDERATION

- (a) Incidents of internal loss control to be considered by the Committee shall be submitted to the office of the appointed Secretary of the Claims and Loss Control Committee for inclusion in the Agenda of the Committee.
- (b) Incidents so submitted shall consist of a comprehensive written report by the relevant SBU Manager, which report shall contain information on the nature of the loss, how it occurred, what remedial steps have been taken to prevent future occurrences, disciplinary action taken if any, value of the loss and how the damage caused will be compensated. The said report shall also contain a recommendation to the Committee on how the incident has to be dealt with.
- (c) When a loss control issue serves before the Committee, the relevant SBU Manager shall avail himself/herself to ensure attendance of such a meeting of the Committee.
- (d) Resolutions taken on loss control issues shall be final and binding and executed accordingly by the SBU Manager.

CHAPTER 5**CLAIMS REGISTER**

- (a) A claims register shall be opened and kept on all claims received and considered by the Committee. This register shall contain the date of the claim, the claimants name and ID number as well as the amount of the claim and whether the claim was paid out or not.
- (b) Claims are documented in order to be able to address questions that may arise concerning the handling and payment of a claim.

CHAPTER 6

COMPLAINTS AND DISPUTES

6.1 FILING OF COMPLAINTS AND DISPUTES

- (a) When a claimant files a complaint against the findings of the Committee, the Committee:-
 - (i) acknowledges receipt of the complaint within a reasonable period of time;
 - (ii) provides the claimant with explanations on how his/her complaint will be handled and the procedures to be followed
 - (iii) processes the complaint promptly and fairly
 - (iv) provides a final response in writing within a reasonable period of time.

6.2 PROCEDURE FOR DEALING WITH COMPLAINTS AND DISPUTES

- (a) Once a complaint has been received and acknowledged, the letter of complaint together with the resolution of the Committee taken with regard to the claim on which a complaint has been received has to be tabled before the earliest next sitting of the Committee for consideration.
- (b) Complaints and disputes so received shall be duly considered by the Committee, whereafter the Committee shall resolve on the matter and a final response on the complaint be forwarded to the claimant in writing.

6.3 DISPUTES

- (a) If the claimant is dissatisfied with the final response from the Committee, the claimant shall be informed to forward his/her dispute in writing to the CFO and Manager Legal Services, who will then assess the matter and decide on a way forward regarding that dispute and inform the claimant accordingly in writing.



POLOKWANE
MUNICIPALITY
**DRAFT FUNDING AND RESERVES
POLICY**

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FUNDING AND RESERVES POLICY

1. INTRODUCTION AND OBJECTIVE

The Council sets as objective a long term financially sustainable municipality with acceptable levels of service delivery to the community.

This policy aims to set standards and guidelines towards ensuring financial viability over both the short and long term and includes funding as well as reserves requirements.

2. SECTION A : FUNDING POLICY

2.1 LEGISLATIVE REQUIREMENTS

In terms of Sections 18 and 19 of the Municipal Finance Management Act (Act No. 56 of 2003) (MFMA), an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes, and
- Borrowed funds, but only for capital projects

Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

The requirements of the MFMA are clear in that the budget must be cash-funded, i.e. cash receipts inclusive of prior cash surpluses must equal or be more than cash paid.

In determining whether the budget is actually cash funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

2.2 STANDARD OF CARE

Each functionary in the budgeting and accounting process must do so with judgment and care with the primary objective of ensuring that the objectives of this policy are achieved.

2.3 STATEMENT OF INTENT

The municipality will not pass a budget which is not cash-funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance and provided that the requirements of the MFMA must at all times be adhered to.

2.4 CASH MANAGEMENT

Cash must be managed in terms of the municipality's Cash Management and Investment Policy.

2.5 LIABILITY MANAGEMENT

Debt must be managed in terms of the municipality's Borrowing Policy, together with any requirements in this policy.

2.6 FUNDING THE OPERATING BUDGET

2.6.1 INTRODUCTION

The Municipality's objective is that the user of municipal resources must pay for such usage in the period in which it will occur.

The municipality recognises the plight of the poor, and in line with national and provincial objectives, commits itself to subsidising services to the poor. This may necessitate cross-subsidisation in some tariffs to be calculated in the budget process.

2.6.2 GENERAL PRINCIPLE WHEN COMPILED THE OPERATING BUDGET

The following specific principles apply when compiling the budget:

- (a) The budget must be cash-funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
- (b) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information;
- (c) Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay;
- (d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities.

For the purpose of the Cash flow budget any National or Provincial grants that have been re-appropriated for roll-over purposes must be excluded from the calculation and be included in changes in Cash and Cash Equivalents and Payables.

Within the budget grants recognised as revenue must equal the total expected expenditure from grants inclusive of capital expenditure and VAT, as per directives given in various MFMA Circulars.

- (e) Projected revenue from service charges must be reflected as net (i.e. all billing less revenue foregone, including free basic services).
- (f) Projected revenue from property rates must include all rates to be levied.

For the purpose of the Cash Flow Budget all rebates and discounts must be deducted from the projected revenue.

- (g) Only charges in fair values related to cash may be included in the Cash Flow Budget. Changes to unamortized discount must be included in the Operating Budget.
- (h) Employee related costs include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits requirements are well above the initial cash capabilities of the municipality. It is therefore determined that provision for the short term portion of employee benefits, as well as an operating surplus calculated at 5% of the prior year balance of the long-term benefits, be included in the operating budget to build sufficient cash for these requirements. The cash portion of the employee benefits must be accounted for in an 'Employer Benefits Reserve'.
- (i) Depreciation must be fully budgeted for in the operating budget.
- (j) Contributions to provisions (non-current and current) do not form part of the cash flow. It is necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed.

2.7 FUNDING THE CAPITAL BUDGET

2.7.1 INTRODUCTION

The Municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non-existent.

In order to achieve this objective the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets.

2.7.2 FUNDING SOURCES FOR CAPITAL EXPENDITURE

The capital budget can be funded by way of own cash, grants, public contributions as well as external loans.

Cash

The capital budget or portions thereof may also be funded from surplus cash. The allocations of the funding sources from own contributions will be determined during the budget process.

Grants (Including Public Contributions)

Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should also be taken that unusual grant funding do not place an unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

The accounting officer will annually evaluate the long term effect of unusual capital grants on future tariffs, and if deemed necessary, report on such to Council.

Depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The Accounting Officer will put such accounting measures in place as to comply with this requirement as far as possible.

External Loans

The Municipality may only raise loans in accordance with its Borrowing Policy.

The Accounting Officer must also put such accounting measures in place to ensure that no unspent portions of loans raised must be included in the cash surplus for the year.

2.8 FUNDING COMPLIANCE MEASUREMENT

2.8.1 INTRODUCTION

The Municipality must ensure that the annual budget or any subsequent adjustments budget complies with the requirements of the MFMA and this policy. For this purpose a set of indicators must be used as part of the budget process and be submitted with the budget. These indicators include all the indicators as recommended by National Treasury as well as any additional indicators detailed in this policy.

If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved until all the indicators provide a positive return, unless those negative indicators can be reasonably explained and any future budget projections address the turn-around of these indicators to within acceptable levels.

2.8.2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

A positive Cash and Cash Equivalents position should be maintained throughout the year.

2.8.3 CASH PLUS INVESTMENTS LESS APPLICATION OF FUNDS

The overall cash position of the municipality must be sufficient to include:

- unspent conditional grants;
- unspent conditional public contributions;
- unspent borrowings;
- VAT due to SARS;
- secured investments;
- the cash portion of statutory funds such as the Housing Development Fund;
- other wording capital requirements; and
- the cash position must be sufficient to back reserves as approved by the municipality and those portions of provisions as indicated elsewhere in this policy.

INDICATORS

2.8.4 MONTHLY AVERAGE PAYMENT COVERED BY CASH AND CASH EQUIVALENTS ('CASH COVERAGE')

This indicator shows the level of risk should the municipality experience financial stress.

2.8.5 SURPLUS / DEFICIT EXCLUDING DEPRECIATION OFFSETS

It is probable that the operating budget including depreciation charges on assets funded by grants and public contributions, as well as on revalued assets, will result in a deficit.

As determined elsewhere in this policy it is not the intention that residents be burdened with tariff increases to provide for such depreciation charges. In order to ensure a 'balanced' budget, the cash position must be determined.

Should a budget result in a deficit cash position, the budget will be deemed unfunded and must be revised.

2.8.6 PROPERTY RATES / SERVICE CHARGE REVENUE PERCENTAGE INCREASE LESS MACRO INFLATION TARGET

The intention of this indicator is to ensure that tariff increases are in line with macro economic targets, but also to ensure that revenue increases for the expected growth in the geographic area are realistically calculated.

2.8.7 CASH COLLECTION % RATE

The object of the indicator is to establish whether the projected cash to be collected is realistic and complies with section 18 of the MFMA.

The collection rate for calculating the provision for impairment of receivables must be based on past and present experience. Past experience refers to the collection rates of the prior years and present experience refers to the collection rate of the current financial year as from 01 July.

It is not permissible to project a collection rate higher than the current rate. Any improvement in collection rates during the budget year may be appropriated in an Adjustments Budget.

2.8.8 DEBT IMPAIRMENT EXPENSE AS A PERCENTAGE OF BILLABLE REVENUE

This indicator provides information as to whether the contribution to the provision for impairment of receivables is adequate. In theory it should be equal to the difference between 100% and the cash collection rate, but other factors such as past performance can have an influence on it. Any difference must be motivated in the budget report.

2.8.9 BORROWING AS A PERCENTAGE OF CAPITAL EXPENDITURE (EXCLUDING GRANTS AND CONTRIBUTIONS)

This indicator provides information as to compliance with the MFMA in determining borrowing needs. The Accounting Officer must ensure compliance with the Municipality's Liability Management.

2.8.10 GRANT REVENUE AS A PERCENTAGE OF GRANTS AVAILABLE

The percentage attained should never be less than 100% and the recognition of expected unspent grants at the current year-end as revenue in the next financial year must be substantiated in a report.

2.8.11 CONSUMER DEBTORS CHANGE (CURRENT AND NON-CURRENT)

The object of the indicator is to determine whether budgeted reductions in outstanding debtors are realistic. Any unacceptably high increase in either current or non-current debtors' balances should be investigated and reported.

2.8.12 REPAIRS AND MAINTENANCE EXPENDITURE LEVEL

Property Plant and Equipment should be maintained properly at all times in order to ensure sustainable service delivery. The budget should allocate sufficient resources to maintain assets and care should be exercised not to allow a declining maintenance program in order to fund other less important expenditure requirements. Similarly, if the maintenance requirements become excessive, it could indicate that a capital renewal strategy should be implemented or reviewed.

2.8.13 ASSET RENEWAL / REHABILITATION EXPENDITURE LEVEL

This indicator supports further the indicator for repairs and maintenance. The Accounting Officer must, as part of the capital budget, indicate whether each project is a new asset or a replacement / renewal asset in order to determine whether the renewal program is sufficient or needs revision.

3. SECTION B : RESERVES POLICY

3.1 INTRODUCTION

Fund accounting historically formed the major component of municipal finance in the IMFO standards.

After the change to General Recognised Accounting Practices (GRAP), fund accounting is no longer allowed.

The municipality, however, recognises the importance of providing to the municipality itself, as well as its creditors, financiers, staff, and general public a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.

This policy therefore aims to provide for a measure of protection by creating certain reserves.

3.2 LEGAL REQUIREMENTS

There are no specific legal requirements for the creation of reserves, except for the Housing Development Fund. The GRAP Standards themselves do not provide for reserves.

3.3 TYPES OF RESERVES

Reserves can be classified into two main categories being 'cash funded reserves' and 'non-cash funded reserves'.

3.3.1 CASH FUNDED RESERVES

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:

(a) Employee benefits reserve

The aim of this reserve is to ensure sufficient cash resources are available for the future payment of employee benefits. The contributions to the reserve must be made in accordance with the directives set in this Funding Policy.

(b) Non-current provisions reserve

The aim of this reserve is to ensure sufficient cash resources are available for the future payment of non-current provisions. The contributions to the reserve must be made in accordance with the directives set in this Funding Policy.

(c) Other statutory reserves

It may be necessary to create reserves prescribed by law, such as the Housing Development Fund. The Accounting Officer must create such reserves according to the directives in the relevant laws.

3.3.2 NON-CASH FUNDED RESERVES

On occasion it is necessary to create non-cash funded reserves. The Accounting Officer must create any reserves prescribed by the accounting standards, such as the Revaluation Reserve, if required.

3.4 ACCOUNTING FOR RESERVES

3.4.1 REVALUATION RESERVE

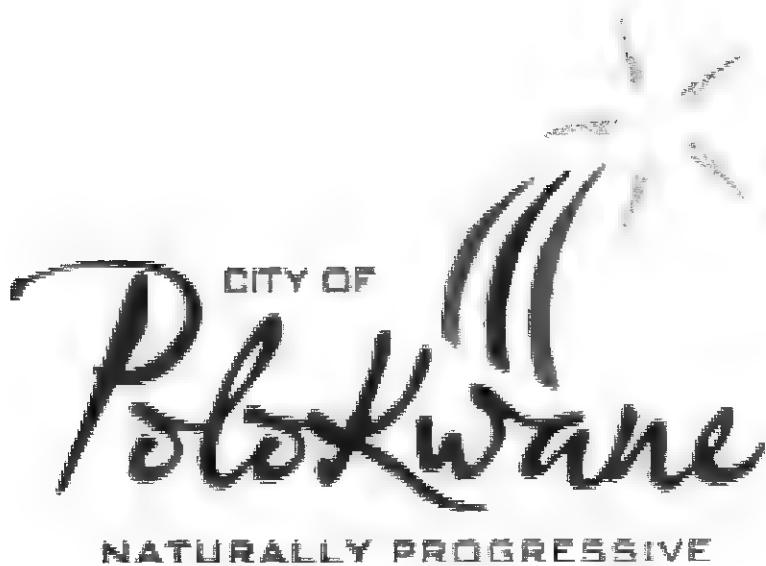
The accounting for the Revaluation Reserve must be done in accordance with the requirements of GRAP 17.

3.4.2 OTHER RESERVES

The accounting for all other reserves must be processed through the Statement of Financial Performance. The required transfer to or from the reserves must be processed in the Statement of Net Assets to or from the accumulated surplus. It is a condition of GRAP and this policy that no transactions may be directly appropriated against these reserves.

4. SECTION C : REVIEW OF THE POLICY

This Funding and Reserves Policy is the only draft policy of the municipality. This policy must be reviewed and submitted for consideration by Council on an annual basis. Such submission must be accompanied with a full description of the reasons for the change to the policy.



POLOKWANE MUNICIPALITY FUNDING & RESERVES POLICY

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FUNDING AND RESERVES POLICY

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Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.

The requirements of the MFMA are clear in that the budget must be cash-funded, i.e. cash receipts inclusive of prior cash surpluses must equal or be more than cash paid.

In determining whether the budget is actually cash funded and in addition ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

2.2 STANDARD OF CARE

Each functionary in the budgeting and accounting process must do so with judgment and care with the primary objective of ensuring that the objectives of this policy are achieved.

2.3 STATEMENT OF INTENT

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2.4 CASH MANAGEMENT

Cash must be managed in terms of the municipality's Cash Management and Investment Policy.

2.5 LIABILITY MANAGEMENT

Debt must be managed in terms of the municipality's Borrowing Policy, together with any requirements in this policy.

2.6 FUNDING THE OPERATING BUDGET

2.6.1 INTRODUCTION

The Municipality's objective is that the user of municipal resources must pay for such usage in the period in which it will occur.

The municipality recognises the plight of the poor, and in line with national and provincial objectives, commits itself to subsidising services to the poor. This may necessitate cross-subsidisation in some tariffs to be calculated in the budget process.

2.6.2 GENERAL PRINCIPLE WHEN COMPILED THE OPERATING BUDGET

The following specific principles apply when compiling the budget:

- (a) The budget must be cash-funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
- (b) Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information;
- (c) Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay;
- (d) Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue Act, proven provincial transfers and any possible transfers to or from other municipalities.

For the purpose of the Cash flow budget any National or Provincial grants that have been re-appropriated for roll-over purposes must be excluded from the calculation and be included in changes in Cash and Cash Equivalents and Payables.

Within the budget grants recognised as revenue must equal the total expected expenditure from grants inclusive of capital expenditure and VAT, as per directives given in various MFMA Circulars.

- (e) Projected revenue from service charges must be reflected as net (i.e. all billing less revenue foregone, including free basic services).
- (f) Projected revenue from property rates must include all rates to be levied.

For the purpose of the Cash Flow Budget all rebates and discounts must be deducted from the projected revenue.

- (g) Only charges in fair values related to cash may be included in the Cash Flow Budget. Changes to unamortized discount must be included in the Operating Budget.
- (h) Employee related costs include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits requirements are well above the initial cash capabilities of the municipality. It is therefore determined that provision for the short term portion of employee benefits, as well as an operating surplus calculated at 5% of the prior year balance of the long-term benefits, be included in the operating budget to build sufficient cash for these requirements. The cash portion of the employee benefits must be accounted for in an 'Employer Benefits Reserve'.

- (i) Depreciation must be fully budgeted for in the operating budget.
- (j) Contributions to provisions (non-current and current) do not form part of the cash flow. It is necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed.

2.7 FUNDING THE CAPITAL BUDGET

2.7.1 INTRODUCTION

The Municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non-existent.

In order to achieve this objective the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets.

2.7.2 FUNDING SOURCES FOR CAPITAL EXPENDITURE

The capital budget can be funded by way of own cash, grants, public contributions as well as external loans.

Cash

The capital budget or portions thereof may also be funded from surplus cash. The allocations of the funding sources from own contributions will be determined during the budget process.

Grants (Including Public Contributions)

Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should also be taken that unusual grant funding do not place an unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

The accounting officer will annually evaluate the long term effect of unusual capital grants on future tariffs, and if deemed necessary, report on such to Council.

Depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The Accounting Officer will put such accounting measures in place as to comply with this requirement as far as possible.

External Loans

The Municipality may only raise loans in accordance with its Borrowing Policy.

The Accounting Officer must also put such accounting measures in place to ensure that no unspent portions of loans raised must be included in the cash surplus for the year.

2.8 FUNDING COMPLIANCE MEASUREMENT

2.8.1 INTRODUCTION

The Municipality must ensure that the annual budget or any subsequent adjustments budget complies with the requirements of the MFMA and this policy. For this purpose a set of indicators must be used as part of the budget process and be submitted with the budget. These indicators include all the indicators as recommended by National Treasury as well as any additional indicators detailed in this policy.

If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved until all the indicators provide a positive return, unless those negative indicators can be reasonably explained and any future budget projections address the turn-around of these indicators to within acceptable levels.

2.8.2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

A positive Cash and Cash Equivalents position should be maintained throughout the year.

2.8.3 CASH PLUS INVESTMENTS LESS APPLICATION OF FUNDS

The overall cash position of the municipality must be sufficient to include:

- unspent conditional grants;
- unspent conditional public contributions;
- unspent borrowings;
- VAT due to SARS;
- secured investments;
- the cash portion of statutory funds such as the Housing Development Fund;
- other wording capital requirements; and
- the cash position must be sufficient to back reserves as approved by the municipality and those portions of provisions as indicated elsewhere in this policy.

INDICATORS

2.8.4 MONTHLY AVERAGE PAYMENT COVERED BY CASH AND CASH EQUIVALENTS ('CASH COVERAGE')

This indicator shows the level of risk should the municipality experience financial stress.

2.8.5 SURPLUS / DEFICIT EXCLUDING DEPRECIATION OFFSETS

It is probable that the operating budget including depreciation charges on assets funded by grants and public contributions, as well as on revalued assets, will result in a deficit.

As determined elsewhere in this policy it is not the intention that residents be burdened with tariff increases to provide for such depreciation charges. In order to ensure a 'balanced' budget, the cash position must be determined.

Should a budget result in a deficit cash position, the budget will be deemed unfunded and must be revised.

2.8.6 PROPERTY RATES / SERVICE CHARGE REVENUE PERCENTAGE INCREASE LESS MACRO INFLATION TARGET

The intention of this indicator is to ensure that tariff increases are in line with macro economic targets, but also to ensure that revenue increases for the expected growth in the geographic area are realistically calculated.

2.8.7 CASH COLLECTION % RATE

The object of the indicator is to establish whether the projected cash to be collected is realistic and complies with section 18 of the MFMA.

The collection rate for calculating the provision for impairment of receivables must be based on past and present experience. Past experience refers to the collection rates of the prior years and present experience refers to the collection rate of the current financial year as from 01 July.

It is not permissible to project a collection rate higher than the current rate. Any improvement in collection rates during the budget year may be appropriated in an Adjustments Budget.

2.8.8 DEBT IMPAIRMENT EXPENSE AS A PERCENTAGE OF BILLABLE REVENUE

This indicator provides information as to whether the contribution to the provision for impairment of receivables is adequate. In theory it should be equal to the difference between 100% and the cash collection rate, but other factors such as past performance can have an influence on it. Any difference must be motivated in the budget report.

2.8.9 BORROWING AS A PERCENTAGE OF CAPITAL EXPENDITURE (EXCLUDING GRANTS AND CONTRIBUTIONS)

This indicator provides information as to compliance with the MFMA in determining borrowing needs. The Accounting Officer must ensure compliance with the Municipality's Liability Management.

2.8.10 GRANT REVENUE AS A PERCENTAGE OF GRANTS AVAILABLE

The percentage attained should never be less than 100% and the recognition of expected unspent grants at the current year-end as revenue in the next financial year must be substantiated in a report.

2.8.11 CONSUMER DEBTORS CHANGE (CURRENT AND NON-CURRENT)

The object of the indicator is to determine whether budgeted reductions in outstanding debtors are realistic. Any unacceptably high increase in either current or non-current debtors' balances should be investigated and reported.

2.8.12 REPAIRS AND MAINTENANCE EXPENDITURE LEVEL

Property Plant and Equipment should be maintained properly at all times in order to ensure sustainable service delivery. The budget should allocate sufficient resources to maintain assets and care should be exercised not to allow a declining maintenance program in order to fund other less important expenditure requirements. Similarly, if the maintenance requirements become excessive, it could indicate that a capital renewal strategy should be implemented or reviewed.

2.8.13 ASSET RENEWAL / REHABILITATION EXPENDITURE LEVEL

This indicator supports further the indicator for repairs and maintenance. The Accounting Officer must, as part of the capital budget, indicate whether each project is a new asset or a replacement / renewal asset in order to determine whether the renewal program is sufficient or needs revision.

3. SECTION B : RESERVES POLICY

3.1 INTRODUCTION

Fund accounting historically formed the major component of municipal finance in the IMFO standards.

After the change to General Recognised Accounting Practices (GRAP), fund accounting is no longer allowed.

The municipality, however, recognises the importance of providing to the municipality itself, as well as its creditors, financiers, staff, and general public a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.

This policy therefore aims to provide for a measure of protection by creating certain reserves.

3.2 LEGAL REQUIREMENTS

There are no specific legal requirements for the creation of reserves, except for the Housing Development Fund. The GRAP Standards themselves do not provide for reserves.

3.3 TYPES OF RESERVES

Reserves can be classified into two main categories being 'cash funded reserves' and 'non-cash funded reserves'.

3.3.1 CASH FUNDED RESERVES

In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:

(a) Employee benefits reserve

The aim of this reserve is to ensure sufficient cash resources are available for the future payment of employee benefits. The contributions to the reserve must be made in accordance with the directives set in this Funding Policy.

(b) Non-current provisions reserve

The aim of this reserve is to ensure sufficient cash resources are available for the future payment of non-current provisions. The contributions to the reserve must be made in accordance with the directives set in this Funding Policy.

(c) Other statutory reserves

It may be necessary to create reserves prescribed by law, such as the Housing Development Fund. The Accounting Officer must create such reserves according to the directives in the relevant laws.

3.3.2 NON-CASH FUNDED RESERVES

On occasion it is necessary to create non-cash funded reserves. The Accounting Officer must create any reserves prescribed by the accounting standards, such as the Revaluation Reserve, if required.

3.4 ACCOUNTING FOR RESERVES

3.4.1 REVALUATION RESERVE

The accounting for the Revaluation Reserve must be done in accordance with the requirements of GRAP 17.

3.4.2 OTHER RESERVES

The accounting for all other reserves must be processed through the Statement of Financial Performance. The required transfer to or from the reserves must be processed in the Statement of Net Assets to or from the accumulated surplus. It is a condition of GRAP and this policy that no transactions may be directly appropriated against these reserves.

4. SECTION C : REVIEW OF THE POLICY

This Funding and Reserves Policy is the only draft policy of the municipality. This policy must be reviewed and submitted for consideration by Council on an annual basis. Such submission must be accompanied with a full description of the reasons for the change to the policy.

